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Annual Report 2000 • H.Paulin & Co., Limited

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First in Fasteners...

1920

1935

1948

1960

2001

For over 80 years.

Company Profile

- H. Paulin & Co., Limited was founded in 1920 by Harry Paulin.
- The Company is a leading manufacturer and distributor of fasteners, fluid system products, automotive parts and screw machine components.
- Manufacturing processes include Cold Heading, Nut Forming, Metal Stamping, Screw Machine, Adhesive Coating and Packaging.
- All divisions are ISO 9002 registered and Capital Metal Industries, Jeyco Machine Products and Long-Lok Canada are QS 9000 certified.
- Typical industries served are automotive, both OEM and aftermarket, industrial, retail hardware and agricultural.
- Distribution facilities are located in Vancouver, Edmonton, Winnipeg, Toronto, Montreal, Moncton and Cleveland, Ohio.
- All manufacturing facilities are located in Ontario, Canada.
- Paulin is a public company and its common shares are listed and traded on The Toronto Stock Exchange under the symbol PAP.A.

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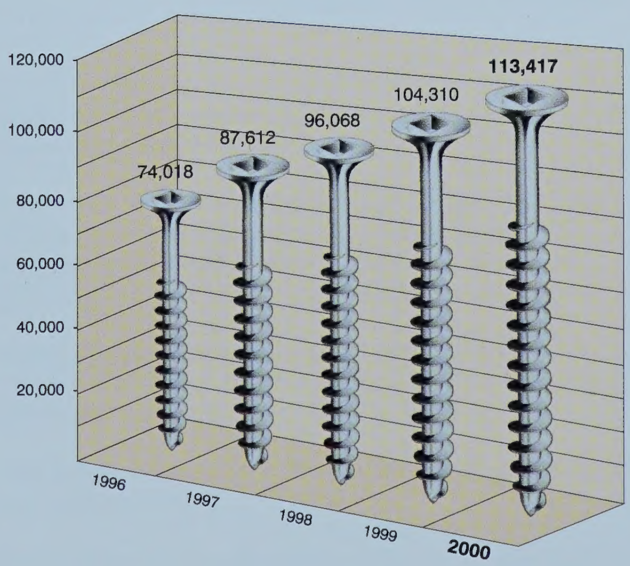
Financial Highlights

(in thousands of dollars, except per share amounts)

	2000	1999
Sales	**$ 113,417**	$ 104,310
Net Income	**$ 3,976**	$ 3,452
*Income per Share	**$ 3.79**	$ 3.29
Dividends Paid	**$ 462**	$ 420
*Dividends per Share	**$ 0.44**	$ 0.40
*Cash Flow per Share	**$ 5.36**	$ 4.97
*EBITDA per Share	**$ 8.49**	$ 8.18
*Shareholders' Equity per Share	**$ 28.28**	$ 24.93
Average Return on Equity	**14.2%**	14.0%

* Based on 1,050,000 shares outstanding

Annual Sales $ (000's)



Earnings per Share

Message to Shareholders

Since 1920, H. Paulin & Co., Limited has focused its efforts on providing customers with the best solutions for their fastening requirements. Over this period the Company has grown to become a leader in the manufacturing, innovation and merchandising of fasteners and components to Canadian automotive, industrial and retail hardware markets.

Our financial results in 2000 were the strongest in the Company's history. Sales rose 9% to $113,417,000 while net earnings climbed 15% to a record $3,976,000 or $3.79 per share. Dividends were increased 10% to $0.44 per share and shareholders equity grew 13.5% to $28.28 per share.

Paulin's solid growth for 9 consecutive years reflects our efforts to anticipate our customers' needs and to invest in the equipment, technology and people needed to exceed these demands. In 2000 over $4.9 million was invested in new capital equipment as part of our strategic initiative to continuously upgrade our facilities and technologies to satisfy our customers' requirements for higher quality, tighter tolerances and lower costs.

In view of the dramatic changes in market conditions which commenced in the last quarter of 2000, the Company is taking the actions necessary to deal with this situation.

We will continue to maintain our goal of increasing market share through a strategy of:

- product and merchandising innovation
- new manufacturing technologies
- marketing Paulin as a "single source" supplier
- strategic acquisitions

The relatively low value of the Canadian dollar, falling interest rates and declining tax rates should help restore the markets we serve.

We are proud of what our staff has accomplished and we will continue to make the investments in training, education and the facilities necessary to provide the environment where every employee has the opportunity to grow and build challenging and rewarding careers.

We would like to thank our employees for their dedication and effort, our customers and suppliers for their strong support, our directors for their guidance and counsel and our shareholders for their ongoing loyalty.

Richard Paulin

Richard Paulin
President
May 10, 2001

Management's Discussion and Analysis

Results of Operations

For the year 2000, sales achieved a record level of $113 million reflecting a 9% increase over 1999 sales of $104 million and 18% over 1998 sales of $96 million. The sales growth of $9 million in the current year came mainly from the growth in the sales of packaged product to the Canadian retail hardware market and high automotive production levels. However, fourth quarter sales were adversely affected by the general slowdown in the production of vehicles.

Earnings before income taxes, interest, depreciation and amortization (EBITDA) rose to $8.9 million, up 4% from $8.6 million in 1999 and up 17% from $7.6 million in 1998.

The drop in interest expense of 18% or $228,000 in 2000 as compared to 1999 reflected lower average bank indebtedness throughout the year and the reduction in long term debt.

Depreciation expense decreased slightly in 2000 to $1,427,000 from $1,459,000 in 1999 and from $1,129,000 in 1998.

The effective income tax rate declined in 2000 to 38.4% from 41.2% in 1999 and 43% in 1998 primarily as a result of lower tax rates and the increase in our manufacturing and processing allowance.

Net income grew by 15% to reach $3,976,000 in 2000 compared to $3,452,000 in 1999 and $2,970,000 in 1998. Earnings per share totalled $3.79 ($3.65 fully diluted) versus $3.29 ($3.17 fully diluted) in 1999 and $2.83 in 1998.

Selling, general and administrative expenses were up 17% over 1999. Our strong growth in retail hardware sales required additional marketing and detailing efforts to support our sales initiatives. Escalating fuel costs and higher sales across Canada contributed to significantly higher delivery costs.

Liquidity and Capital Resources

Cash flow from operations was $5.6 million in 2000, up 8% over the $5.2 million produced in 1999. Cash flow per share was $5.36 in 2000 as compared to $4.97 in 1999 and $4.10 in 1998. This steady growth mirrored the continuous improvement in net earnings over these years.

Total assets increased to $62.3 million up 14% compared to $54.7 million in 1999. Accounts receivable rose 9% to $18.3 million. The majority of the $1.5 million increase in receivables from 1999 was from instalment payments on capital equipment that was subsequently sold and leased back. Inventories grew 15% to reach $31.9 million from $27.8 million in 1999, due to the increase in product selection and the need to service our customers on a just-in-time basis.

Working capital increased to $25.9 million at the end of the fiscal year for a current ratio of 2.03:1 as compared to $24.3 million and a ratio of 2.17:1 at the end of 1999. Working capital per share was $24.70 up 7% from $23.16 in 1999 and up 19% from $20.80 in 1998.

Cash dividends paid to shareholders were $462,000 or $0.44 per share, an increase of 10% over the $420,000 or $0.40 per share paid in 1999.

Bank indebtedness increased by almost $2.5 million to $9.6 million from $7.2 million in 1999 and $9.1 million in 1998. The major factor contributing to this increase was the $4.1 million increase in inventory. Despite the increase, the balance sheet remains strong with a debt to equity ratio unchanged at .52:1 and bank operating lines that are adequate. The Company does not hold or issue financial instruments for trading purposes.

Manufacturing

The Company has a number of operations specializing in the following manufacturing processes:

- Cold Heading and Nut Forming
- Processing and Coatings
- Precision Turned Products
- Packaging
- Metal Stamping

Each of these operations enjoyed sales growth in 2000. However, the markets served by these divisions are experiencing significant declining volumes, severe price pressures and increasing quality demands. In order to minimize further gross margin erosion, the Company continues to invest in laser and vision inspection equipment and in production technologies which will help lower its costs of production.

Cold Heading and Nut Forming

The cold forming divisions manufacture bolts, screws, rivets, nuts, spacers and special fasteners primarily from steel, brass, copper and stainless steel.

2000 saw a number of improvements to our cold forming operations. New heading and threading equipment was installed resulting in increased productivity and range of product capabilities. Four new nut tappers were purchased which will help to lower the cost of tapping and improve the quality of the internal threads. Additional secondary operation equipment, including a new prevailing torque side lock nut machine, was installed expanding our product capabilities.

For 2001 we will continue our strategy of productivity improvements with the installation of new nut forming, tapping, heading and pointing equipment.

Metal Stamping

The stamping division has production capability up to 160 tons utilizing metals from .005" through 1/4" thick. Standard products manufactured include our line of Easy•Spot® weld nuts, automotive shims, washers, leg levelers and custom specials.

During 2000 the stamping operation installed 3 new tapping machines and an automated leg leveling machine. Further investments in reel decoilers, tonnage monitors and conveyors resulted in improved productivity gains. For 2001 we plan to introduce new products to our Easy•Spot® program.

Precision Turned Products

Precision turned products are manufactured primarily from bar stock on single spindle, multi-spindle and rotary transfer machines. Parts are made to very tight tolerances and are manufactured from steel, brass, aluminum, stainless, nylon and phosphor bronze.

Our business for turned parts achieved its highest level of revenues and profits in the 2000. The addition of a HB 32/45-16 rotary transfer machine late in the year will provide greater capacity and a broader range of products that can be manufactured by this division. Our focus of providing value-added, tight tolerance, high quality niche products has helped separate Jeyco from its numerous competitors.

In the second quarter of 2001 the division will move into a larger building. Although the move will create some significant one time costs, the new factory will be a more efficient facility with capacity to expand production capabilities.

Expectations are for improved performance in the second half of the year.

Precision turned products

Processing and Coating

This division applies locking and sealing compounds to threaded fasteners to prevent loosening and to allow ease of assembly. The major processes performed by this division include the insertion of a nylon strip or the application of a micro-encapsulated adhesive or sealant to external or internal threads of fasteners and fittings, in order to make the fastener or fitting self-locking or self-sealing.

In 2000, the division successfully installed a new state-of-the-art coating machine which contributed to record production. Increased sales resulted from both the strong automotive market and new industrial applications in such markets as appliance, furniture and marine.

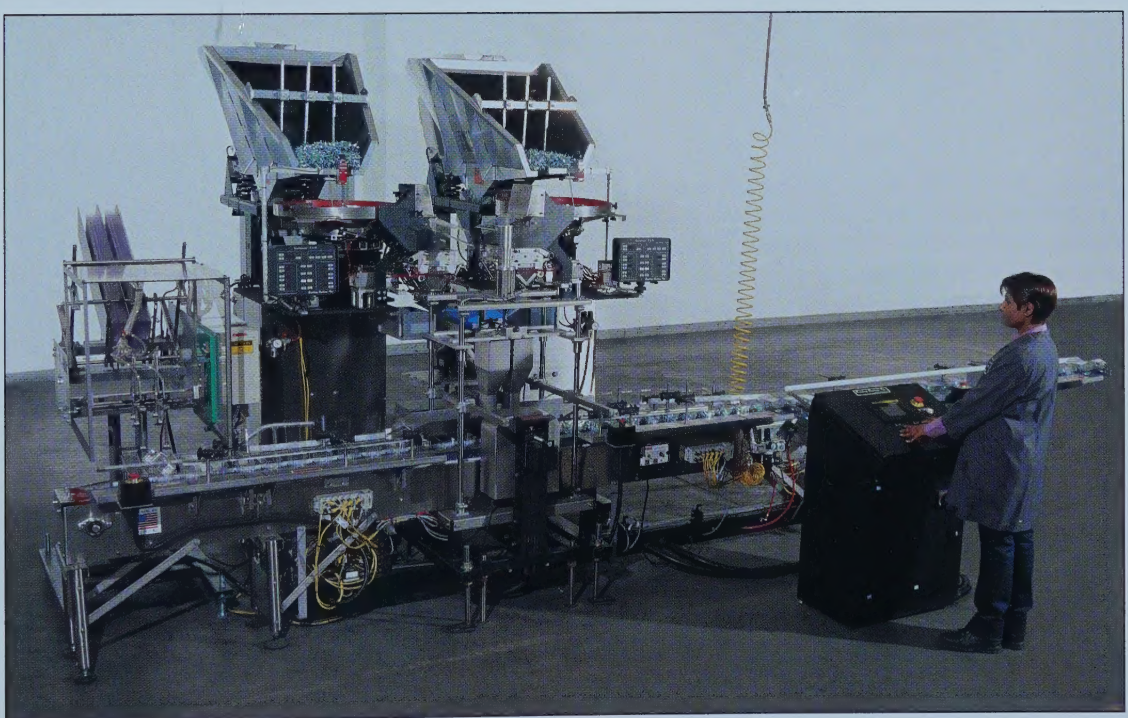
Despite a volatile market, we anticipate that with the new products to be introduced and the continued development of new applications, the division will continue to grow in 2001.

Packaging

The Packaging department is a major operation in the Company focused on converting fasteners from bulk into a variety of smaller packaged quantities. In-house facilities include skin packaging, blister card, bagging, kits, boxing and specialty head marking.

2000 was another successful year for the packaging operation as production volumes were the highest ever achieved. The installation of new electronic counting equipment and automatic labelling machinery resulted in improved efficiencies. New material handling equipment was installed to reduce the manual handling of the product.

Late in 2000 a new automated clamshell packaging line was installed. We expect to see additional productivity gains when this machine is fully operational.



Automated clamshell packaging line

Distribution

The distribution business merchandises and distributes a complete line of over 75,000 SKU's (stock keeping units) of fasteners and fluid flow components to the industrial, automotive aftermarket and hardware markets from distribution centres in Vancouver, Edmonton, Winnipeg, Toronto, Montreal, Moncton and Cleveland, Ohio.

Hardware

Sales to the hardware industry continued to grow in 2000.

Innovative new packaging and new product lines helped the company achieve increased market share. The implementation of proprietary hand held technology allowed our dedicated service team to better manage our customers' inventory levels. As a result of our unique efforts, one of our customers, Home Depot, awarded Paulin the "Partner of the Year" award for the third consecutive year.

2001 should see further sales growth as new merchandising programs are introduced and the next generation of our computerized touch screen "Fastener Finder" is unveiled. Paulin's recognition as a world class supplier of fasteners to the hardware industry will help us penetrate new markets in the coming year.

"Pro-tip" power driver bits and accessories

Industrial

The Industrial division experienced solid growth through the year due to favourable economic conditions and the implementation of a number of sales programs aimed at this market. Several of our customers were able to expand their businesses in the U.S. as a result of the relatively low value of the Canadian dollar.

The current trend of reducing costs through Vendor Managed Inventory programs has provided the Company, with the opportunity to work with a number of customers as they move further into this form of supply. The breadth of inventory the Company carries coupled with its ability to supply any custom fastener has further enhanced our position with customers. We anticipate further growth in this segment of the market in 2001.

During the year a number of distributor customers merged. This trend towards consolidation is expected to expand faster in 2001 creating both greater risks and returns to the Company.

Industrial bolts, nuts and washers

Automotive Aftermarket

The automotive aftermarket is made up of all the products and services used in the repair and maintenance of vehicles. This market was relatively stagnant in 2000 as many consumers chose to acquire new vehicles as opposed to repairing older ones. This, combined with Paulin's large market share and further consolidations by the warehouse distributors, resulted in minimal growth for this division.

We expect that new products introduced late in the year, our new electronic catalogue complete with over 10,000 UPC bar coded products, and expansion into the U. S. aftermarket, will result in increased growth for 2001.

"Papco" aftermarket mechandising

Fluid Flow Components

The fittings division manufactures air brake and propane hose assemblies, and distributes a complete line of over 9,700 steel and brass fittings, valves, tubing, hose and tube working tools. Typical markets served by Dominion Fittings include propane, plumbing, hardware, industrial distributors and the automotive aftermarket.

The fitting business realized further growth in 2000 as all markets served enjoyed good economic conditions. The cold winter weather increased the demand for our gas product program. However, the significant increase in fossil fuel prices late in 2000 and into 2001 may result in hydro electric power being utilized as a viable alternative source to propane for home heating energy in the future.

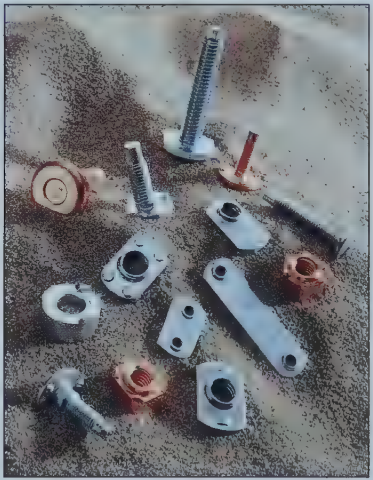
New product lines are being added for the plumbing and HVAC markets which should help the business grow in 2001.

Fluid flow components

Exports

Record sales to the U. S. were achieved through the year as increased marketing efforts for the "Easy-Spot" line of weld fasteners met with success. This line has now become a catalogue item for our customers and will contribute to increased demand.

Sales activity in South America remained weak as markets continued to be depressed through much of the year.



"Easy-Spot" weld fasteners

Outlook

The economic environment for 2001 is going to be very challenging. First quarter results will be adversely affected by the steep production cuts taken by the North American vehicle manufacturers. The high tech meltdown has also directly reduced demand for light fasteners. All of our manufacturing businesses have been affected by the economic slowdown.

However, if interest rates continue their downward direction, we anticipate that the North American economy will recover in the second half of the year creating greater demand for our products. Our introduction of new products with creative marketing programs should result in satisfactory results in 2001.

Drywall, hollow wall and concrete anchoring fasteners

Auditors' Report

To the Shareholders of
H. Paulin & Co., Limited

We have audited the consolidated balance sheets of H. Paulin & Co., Limited as at December 31, 2000 and 1999 and the consolidated statements of operations and retained earnings and of cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2000 and 1999 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP
Chartered Accountants

Toronto, Ontario
March 26, 2001

Consolidated Balance Sheets

as at December 31 (in thousands of dollars)

H.Paulin & Co. Limited and its wholly owned subsidiaries
(Incorporated under the Laws of Ontario)

ASSETS	**2000**	**1999**
Current	**$ 18,326**	$ 16,868
Accounts Receivable	**31,917**	27,791
Inventories	**789**	522
Sundry assets and prepaid expenses	**51,032**	45,181
Capital assets (Note 2)	**11,309**	9,548
	$ 62,341	$ 54,729
LIABILITIES		
Current		
Bank indebtedness (Note 3)	**$ 9,643**	$ 7,172
Accounts payable and accrued charges	**14,487**	13,010
Incomes taxes payable	**612**	332
Current portion of long-term debt (Note 4)	**351**	351
	25,093	20,865
Long-term debt (Note 4)	**5,731**	6,081
Future income taxes	**1,822**	1,602
	32,646	28,548
SHAREHOLDERS' EQUITY		
Capital stock (Note 5)	**1,016**	1,016
Retained earnings	**28,679**	25,165
	29,695	26,181
	$ 62,341	$ 54,729

APPROVED BY THE BOARD

Richard Paulin
Director

Stanley F. Paulin
Director

H.Paulin & Co. Limited and its wholly owned subsidiaries

Consolidated Statements of Operations and Retained Earnings

for the years ended December 31 (in thousands of dollars, except per share amounts)

	2000	1999
Sales	**$ 113,417**	$ 104,310
Income from operations before the following charges	**$ 24,263**	$ 21,660
Selling general and administrative expenses	**15,350**	13,069
Depreciation and amortization	**1,427**	1,459
Interest, including interest on long-term of $421 (1999 - $439)	**1,039**	1,267
	17,816	15,795
Income before income taxes	**6,447**	5,865
Income taxes (Note 6)	**2,471**	2,413
Net income for the year	**3,976**	3,452
Retained earnings at beginning of year	**25,165**	22,133
Dividends	**(462)**	(420)
Retained earnings at end of year	**$ 28,679**	$ 25,165
PER SHARE INFORMATION (Note 5)		
Income per share	**$ 3.79**	$ 3.29
Fully diluted income per share	**$ 3.65**	$ 3.17
Dividends per share	**$ 0.44**	$ 0.40

H.Paulin & Co. Limited and its wholly owned subsidiaries

Consolidated Statements of Cash Flows

for the years ended December 31 (in thousands of dollars)

NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:	**2000**	1999
Operations		
Net income for the year	**$ 3,976**	$ 3,452
Items not affecting cash		
Depreciation and amortization	**1,427**	1,459
Future income taxes	**220**	311
	5,623	5,222
Changes in non-cash components of working capital		
Accounts receivable	**(1,458)**	(2,603)
Inventories	**(4,126)**	468
Sundry assets and prepaid expenses	**(267)**	81
Accounts payable and accrued charges	**1,477**	2,168
Income taxes payable	**280**	(662)
	1,529	4,674
Financing		
Dividends paid	**(462)**	(420)
Repayment of long-term debt	**(350)**	(351)
	(812)	(771)
Investing		
Purchase of capital assets	**(4,924)**	(5,668)
Proceeds on disposal of capital assets	**1,736**	3,686
	(3,188)	(1,982)
(Increase) decrease in bank indebtedness during the year	**(2,471)**	1,921
Bank indebtedness at beginning of year	**(7,172)**	(9,093)
Bank indebtedness at end of year	**$ (9,643)**	$ (7,172)
SUPLEMENTARY CASH FLOWS INFORMATION		
Interest paid	**$ 1,039**	$ 1,267
Income taxes paid	**$ 2,104**	$ 2,580

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Notes to the Consolidated Financial Statements

December 31, 2000 and 1999 (in thousands of dollars, except per share amounts)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Consolidation

The consolidated financial statements include the accounts of H. Paulin & Co., Limited and its wholly-owned subsidiary companies.

b) Inventories

Inventories are valued at the lower of cost and net realizable value, with cost being determined on a first-in, first-out basis.

c) Capital assets

Capital assets are recorded at cost. Provision for depreciation and amortization is computed using methods which will depreciate the assets over their estimated useful lives as follows:

Building	-	4%, declining-balance
Machinery and equipment	-	10%, straight-line
Furniture, office equipment	-	20-33%, straight-line or declining-balance
Leasehold improvements	-	term of lease, straight-line

d) Income taxes

Effective January 1, 2000, the Company and its subsidiaries changed its method of accounting for income taxes from the deferral method to the liability method with the adoption of Section 3465 of The Canadian Institute of Chartered Accountant's Handbook "Accounting for Income Taxes." Under the liability method of tax allocation, deferred income tax assets and liabilities are determined based on the differences between the financial reporting and tax bases of assets and liabilities, and are measured using the substantively enacted tax rates and laws that are expected to be in effect in the periods in which the deferred income tax assets or liabilities are expected to be settled or realized.

This new accounting policy did not have a material effect on the amounts previously reported and therefore the comparative financial statements have not been restated. Prior to January 1, 2000, the Company and its subsidiaries used the deferral method of accounting for income taxes.

e) Foreign currencies

Foreign currency transactions, which arise primarily from the Company's foreign subsidiary, which is considered financially and operationally interdependent, and foreign sales and purchases, have been translated into Canadian funds as follows:

- Monetary items at the rate of exchange at the balance sheet date.
- Non-monetary items at the historical exchange rates.
- Transactions occurring during the year at the then-prevailing rates.
- Gains or losses on foreign exchange are included in income in the year incurred.

f) Stock option plan

The Company has an employee stock option plan, which is described in Note 5. No compensation expense is recognized for this plan when stock or stock options are issued to employees. Any consideration paid by employees on exercise of stock options or purchase of stock is credited to share capital. If stock or stock options are repurchased from employees, the excess of the consideration paid over the carrying amount of the stock or stock option cancelled is charged to retained earnings.

g) Use of estimates

In preparing the Company's financial statements, management is required to make estimates and assumptions that affect the reported amount of assets, liabilities, and the disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. CAPITAL ASSETS

	2000 Cost	2000 Accumulated Depreciation	2000 Net Book Value	1999 Cost	1999 Accumulated Depreciation	1999 Net Book Value
Land	$ 730	$ -	$ 730	$ 730	$ -	$ 730
Building	601	148	453	601	130	471
Machinery and equipment	21,518	12,577	8,941	19,324	11,757	7,567
Furniture, office equipment and leasehold improvements	4,228	3,043	1,185	3,234	2,454	780
	$ 27,077	$ 15,768	$ 11,309	$ 23,889	$ 14,341	$ 9,548

3. BANK INDEBTEDNESS

The Company has a $25 million (1999-$25 million) operating facility with a Canadian chartered bank bearing interest at the bank's prime lending rate. This facility, which is unsecured and due on demand, requires the Company to meet certain general conditions prescribed by the bank. The Company negotiated a $4 million long-term borrowing from this facility at a fixed interest rate of 6.6% (see Note 4). While this long-term borrowing remains a demand loan, demand prior to maturity is not contemplated.

4. LONG-TERM DEBT

Details of the Company's long-term bank borrowings are as follows:

	2000	1999
6.8% per annum, secured by specific equipment, maturing December 23, 2002	$ 963	$ 1,225
6.6% per annum, interest only, unsecured, maturing June 10, 2003	4,000	4,000
6.9% per annum, unsecured, maturing August 27, 2003	1,119	1,207
	6,082	6,432
Less current portion	351	351
	$ 5,731	$ 6,081

Future principal repayments are as follows:

2001	$ 351
2002	788
2003	4,943
	$ 6,082

5. CAPITAL STOCK

a. Authorized

2,000,000 Class A common shares and 2,000 common shares.

b. Issued and outstanding

The Company has 1,050,000 (1999 – 1,050,000) Class A common shares issued and outstanding at year-end.

c. Stock option plan

In 1998, an employee stock option plan was created for the issuance of a maximum of 46,500 Class A common shares, with the options exercisable at $20.25 per share. These options expire in 2008 if not exercised. No options have been exercised to-date.

d. Income and fully diluted income per share calculations

Income per share was calculated based on the weighted average number of shares outstanding. Fully diluted income per share reflects the dilutive effect of the exercise of stock options as if the options had been exercised on the date of granting the options.

6. INCOME TAXES

The reconciliation of the provision for income taxes reflected in the financial statements with the amount of tax that would result from the application of Canadian statutory tax rates to reported income, is as follows:

	2000	1999
Income before income taxes	**$ 6,447**	$ 5,865
Approximate applicable statutory tax rate	**44%**	45%
Income taxes at statutory tax rates	**2,837**	2,639
Add (deduct) the tax effect of		
Manufacturing and processing allowance	**(364)**	(266)
Large corporations tax	**25**	10
Rate adjustment	**(37)**	-
Other	**10**	30
	$ 2,471	$ 2,413

7. LEASE OBLIGATIONS

The Company leases property, plant and equipment under agreements which are classified as operating leases. The aggregate minimum annual rental payments under these leases are as follows:

2001	$ 3,121
2002	2,618
2003	2,605
2004	2,331
2005	1,712
	$ 12,387

8. SEGMENTED INFORMATION

The Company operates principally in Canada in two business segments. The Manufacturing segment produces, assembles and packages fasteners, fittings and parts mainly for automotive Tier 1 and Tier 2 suppliers, industrial OEMs and hardware and industrial distributors. The Distribution segment merchandises and distributes ferrous and non-ferrous fasteners and fittings to the hardware, automotive aftermarket and industrial markets.
The following is a summary of the two segments' financial information:

	2000	1999
Sales		
Manufacturing	**$ 91,800**	$ 82,600
Distribution	**31,900**	31,300
Intersegment	**(10,300)**	(9,600)
Total	**$ 113,400**	$ 104,300
Income before income taxes		
Manufacturing	**$ 5,700**	$ 4,700
Distribution	**700**	1,200
Total	**$ 6,400**	$ 5,900
Capital assets		
Manufacturing	**$ 22,900**	$ 20,600
Distribution	**4,200**	3,300
Total	**$ 27,100**	$ 23,900
Depreciation and amortization		
Manufacturing	**$ 1,200**	$ 1,300
Distribution	**300**	200
Total	**$ 1,500**	$ 1,500
Net capital expenditures		
Manufacturing	**$ 2,400**	$ 1,600
Distribution	**800**	400
Total	**$ 3,200**	$ 2,000

Export sales account for approximately 8% (1999-9%) of sales to external customers.

9. RELATED PARTY TRANSACTIONS

The Company leases plants in Scarborough and Milton from its principal shareholders and officers. The lease payments to these related parties were approximately $719 thousand in 2000 (1999- $719 thousand). These payments were determined based on market rates and the commitments are included in Note 7.

10. SUBSEQUENT EVENT

Subsequent to December 31, 2000, the Company received notification from the Canadian Customs and Revenue Agency ("CCRA") of its proposal to make certain adjustments to the Company's corporate tax returns for the 1997 and 1998 taxation years, which will result in an increase in income taxes payable for the years in question. No notices of re-assessment have yet been issued. The Company and its tax advisors believe that the Company's tax filing position is substantially defensible and intend to vigorously assert that position and contest any re-assessment by CCRA. The eventual outcome of this issue cannot be determined at this time.

11. ADDITIONAL INFORMATION ON WORKING CAPITAL

	2000	1999
Working capital, beginning of year	**$ 24,316**	$ 21,847
Increase in working capital	**1,623**	2,469
Working capital, end of year	**$ 25,939**	$ 24,316

12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

a. Fair value of financial assets and liabilities

Following are the major methods and assumptions used in estimating the fair value of financial instruments:

i) The fair value of current assets and liabilities approximate their carrying amounts due to the relatively short maturity period of the instruments.

ii) The fair value of long-term debt is calculated based on the present value of expected cash flows using rates currently available to the Company for long-term debt with similar terms and remaining maturities. The fair value of long-term debt is estimated at $6.1 million (1999 - $6.4 million).

b. Credit risk

The Company's receivables are from a large number of customers. No single customer represents more than 10% of total accounts receivable.

c. Interest rate risk

The Company's primary interest rate exposure is on its bank indebtedness with a chartered bank, which bears interest at floating rates.

d. Foreign currency risk

The Company's foreign currency exposure arises from purchase and sale contracts transacted in U.S. dollars.

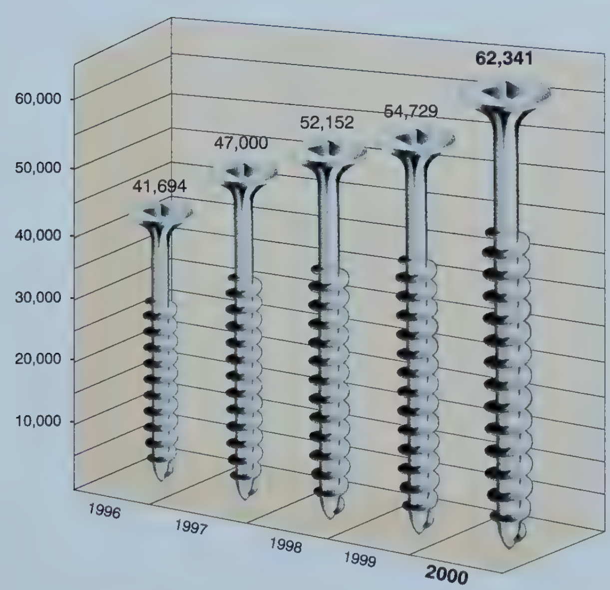
Ten year statistical summary

Years ending December 31, 1991-2000

Dollars in thousands except as indicated †	1991	1992	1993	1994	1995	1996	1997	1998	1999	**2000**
Sales	38,299	43,481	50,399	64,485	70,031	74,018	87,612	96,068	104,310	**113,417**
Depreciation and Amortization	607	612	627	663	662	676	1,042	1,129	1,459	**1,427**
Income Taxes (recovery)	(117)	56	215	799	917	1,003	1,475	2,240	2,413	**2,471**
Net income (loss)	(194)	40	310	1,166	1,228	1,329	2,008	2,970	3,452	**3,976**
Income (loss) per Share*†	(0.18)	0.04	0.30	1.11	1.17	1.27	1.91	2.83	3.29	**3.79**
Net Income (loss) % of Sales	(0.5)	0	0.6	1.8	1.8	1.8	2.3	3.1	3.3	**3.5**
Additions to Fixed Assets	270	548	491	2,285	821	2,900	2,137	2,389	1,982	**3,188**
Working Capital	13,438	13,549	13,913	14,415	15,444	14,252	16,523	21,847	24,316	**25,939**
Shareholders' Equity	15,368	15,409	15,666	16,685	17,724	18,802	20,537	23,149	26,181	**29,695**
Average return on Equity %	(1.2)	0.2	2.0	7.2	7.1	7.3	10.2	13.6	14.0	**14.2**
Dividends per Share * †	0.09	0	0.05	0.14	0.18	0.24	0.26	0.34	0.40	**0.44**

* Based on 1,050,000 shares outstanding as at December 31,2000

Total Assets $ (000's)



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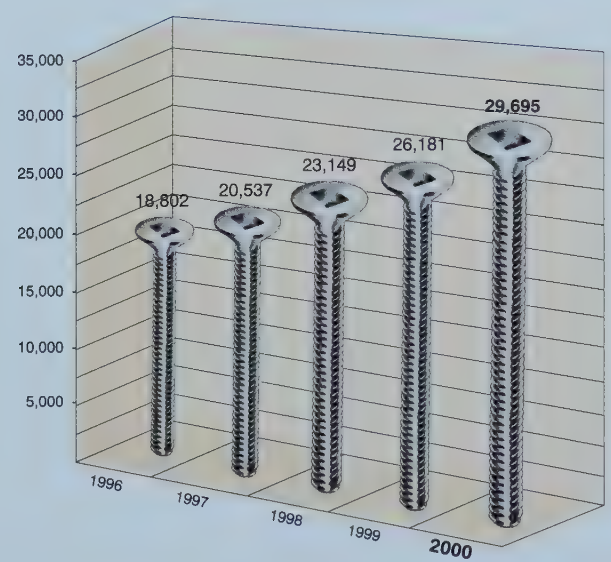

paulin

Company products are sold under such trademarks as:

paulin®	H. Paulin & Co.Limited
papco	Automotive Aftermarket Products
SHELF-PAK 5®	Merchandising Program
Spee-Drill®	Self-Drilling Fasteners
Dominion®	Fluid Flow Components
Uni-Bolt®	Universal Bolt
WORK-SAVERS®	Do-It-Yourself Hardware
pic-a-pac®	Packaged Fasteners
Uni-Nut®	Universal Nut
Easy Spot®	Weld Fasteners
Hamm'r HOOK®	Wall Anchors Fasteners
GALLERIA™	Professional Hanging Hooks
Pozi-Lok®	Self-Locking Nuts
pro-tip®	Screwdrivers and Bits
HANDY-PAKS®	Merchandising Program
Uni-Rod®	Fully Threaded Rod
DURA-GRIP®	Specialty Screws
CONTRACTOR paulin QUALITY®	Contractor Quality
megapak®	Merchandising Program
Tri-Lok™	Locknuts
FASTENER FINDER™	Computer Touch Screen
Hot-Lok®	Locking Fasteners
Loxxon®	Square Drive Screws
Hi-Form®	Threaded Fasteners

H. Paulin & Co., Limited

BOARD OF DIRECTORS

(1) Dr. Irving Betcherman, Toronto
Corporate Director

Arnold B. Irwin, Toronto
Corporate Director

Stanley F. Paulin, Toronto
Vice-President, H.Paulin & Co., Limited

(1) (2) Vincent P. Reid, Q.C. Toronto
Corporate Director

(2) Harvey G. Kotler, Q.C. Toronto
Solicitor, Kotler Law Firm

(1) (2) Richard C. Paulin, Toronto
President, H.Paulin & Co., Limited

(1) Member of the Audit Committee
(2) Member of the Human Resource
and Corporate Governance Committee

OFFICERS

Richard C. Paulin
President

Stanley F. Paulin
Vice-President, Secretary

Jeffrey Jonsohn
Vice-President, Operations

Carl Krause
Treasurer

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Fax: (416) 694-1869
E-mail: paulin@hpaulin.com

Investor Relations (416) 694-3360 ext.135

AUDITORS
Deloitte & Touche LLP, Toronto

LEGAL COUNSEL
Goodmans LLP, Toronto

STOCK TRADING SYMBOL
PAP.A on the Toronto Stock Exchange

REGISTRAR AND TRANSFER AGENT
Computershare Trust Company of Canada

BANK
Bank of Nova Scotia, Toronto

ANNUAL MEETING
The Annual Meeting of Shareholders
will be held at
The Inn on the Park, Oak Room
1100 Eglinton Avenue East
Toronto, Ontario
Tuesday, June 19, 2001
11:00 a.m. (E.S.T.)

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